

**Village of Pewamo
Ionia County, Michigan**

FINANCIAL STATEMENTS

March 31, 2008

Village of Pewamo
Ionia County, Michigan

March 31, 2008

VILLAGE COUNCIL AND ADMINISTRATION

Mr. William Thelen	President
Mr. Mike Smith	President Pro-tem
Mr. William Heckman	Trustee
Mr. Jarrod Hafner	Trustee
Mr. Randy Zenk	Trustee
Mrs. Patricia Distel	Trustee
Mr. Carl Fox	Trustee
Mrs. Sandy Wolniakowski	Clerk
Mr. Carl Hafner	Treasurer

Village of Pewamo

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Pewamo
Pewamo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pewamo, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Pewamo's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pewamo, Michigan as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 23, 2008

BASIC FINANCIAL STATEMENTS

Village of Pewamo

STATEMENT OF NET ASSETS

March 31, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 125,033	\$ 100,792	\$ 225,825
Investments	257,830	307,180	565,010
Receivables	4,752	17,803	22,555
Due from other governmental units	10,118	-	10,118
Total current assets	397,733	425,775	823,508
Noncurrent assets			
Capital assets not being depreciated	44,447	-	44,447
Capital assets, net of accumulated depreciation	527,794	1,117,245	1,645,039
Total noncurrent assets	572,241	1,117,245	1,689,486
TOTAL ASSETS	969,974	1,543,020	2,512,994
LIABILITIES			
Accounts payable	5,458	308	5,766
Accrued wages	1,682	-	1,682
TOTAL LIABILITIES	7,140	308	7,448
NET ASSETS			
Invested in capital assets	572,241	1,117,245	1,689,486
Restricted for streets and highways	129,304	-	129,304
Unrestricted	261,289	425,467	686,756
TOTAL NET ASSETS	<u>\$ 962,834</u>	<u>\$ 1,542,712</u>	<u>\$ 2,505,546</u>

See accompanying notes to financial statements.

Village of Pewamo
STATEMENT OF ACTIVITIES
Year Ended March 31, 2008

				Net (Expense) Revenue and Changes in Net Assets		
		Program Revenues		Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 67,156	\$ -	\$ -	\$ (67,156)	\$ -0-	\$ (67,156)
Public safety	9,320	-	-	(9,320)	-0-	(9,320)
Public works	139,428	-	52,603	(86,825)	-0-	(86,825)
Health and welfare	5,150	9,285	-	4,135	-0-	4,135
Community and economic development	1,177	175	-	(1,002)	-0-	(1,002)
Recreation and cultural	6,441	-	3,376	(3,065)	-0-	(3,065)
Total governmental activities	228,672	9,460	55,979	(163,233)	-0-	(163,233)
Business-type activities						
Sewer	69,590	40,803	-	-0-	(28,787)	(28,787)
Water	65,602	48,182	-	-0-	(17,420)	(17,420)
Total business-type activities	135,192	88,985	-0-	-0-	(46,207)	(46,207)
Total	\$ 363,864	\$ 98,445	\$ 55,979	(163,233)	(46,207)	(209,440)
General revenues						
Property taxes				120,270	-	120,270
State shared revenue				55,173	-	55,173
Investment earnings				39,067	22,762	61,829
Miscellaneous				3,739	-	3,739
Transfers				44,926	(44,926)	-0-
Total general revenues				263,175	(22,164)	241,011
Change in net assets				99,942	(68,371)	31,571
Net assets, beginning of the year				862,892	1,611,083	2,473,975
Net assets, end of the year				\$ 962,834	\$ 1,542,712	\$ 2,505,546

See accompanying notes to financial statements.

Village of Pewamo

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2008

	General	Major Street	Local Street
ASSETS			
Cash and cash equivalents	\$ 91,080	\$ 42,815	\$ (8,862)
Investments	172,840	73,267	11,723
Receivables			
Taxes	545	-	-
Accounts	860	2	125
Interest	2,089	975	156
Due from other governmental units	828	7,155	2,135
TOTAL ASSETS	\$ 268,242	\$ 124,214	\$ 5,277
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 5,271	\$ -	\$ 187
Accrued wages	1,682	-	-
TOTAL LIABILITIES	6,953	-0-	187
FUND BALANCES			
Unreserved			
Designated for			
Equipment replacement	60,501	-	-
Undesignated, reported in			
General fund	200,788	-	-
Special revenue funds	-	124,214	5,090
TOTAL FUND BALANCES	261,289	124,214	5,090
TOTAL LIABILITIES AND FUND BALANCES	\$ 268,242	\$ 124,214	\$ 5,277

See accompanying notes to financial statements.

Nonmajor Governmental Fund (Softball)	Total Governmental Funds
\$ -	\$ 125,033
-	257,830
-	545
-	987
-	3,220
-	10,118
<u>\$ -0-</u>	<u>\$ 397,733</u>
\$ -	\$ 5,458
-	1,682
-0-	7,140
-	60,501
-	200,788
-	129,304
<u>-0-</u>	<u>390,593</u>
<u>\$ -0-</u>	<u>\$ 397,733</u>

Village of Pewamo

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2008

Total fund balance - governmental funds \$ 390,593

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 1,155,164
Accumulated depreciation is	<u>(582,923)</u>

Capital assets, net	<u>572,241</u>
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Net assets of governmental activities	<u><u>\$ 962,834</u></u>
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See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended March 31, 2008

	General	Major Street
REVENUES		
Taxes	\$ 120,270	\$ -
Intergovernmental	58,549	40,566
Charges for services	9,460	-
Interest and rents	31,603	6,746
Other	3,739	-
TOTAL REVENUES	223,621	47,312
EXPENDITURES		
Current		
General government	41,019	-
Public safety	7,920	-
Public works	79,865	17,697
Health and welfare	5,150	-
Community and economic development	1,177	-
Recreation and cultural	2,682	-
Capital outlay	12,774	-
TOTAL EXPENDITURES	150,587	17,697
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	73,034	29,615
OTHER FINANCING SOURCES (USES)		
Transfers in	60,567	10,159
Transfers out	(33,790)	(11,981)
TOTAL OTHER FINANCING SOURCES (USES)	26,777	(1,822)
NET CHANGE IN FUND BALANCES	99,811	27,793
Fund balances, beginning of year	161,478	96,421
Fund balances, end of year	\$ 261,289	\$ 124,214

See accompanying notes to financial statements.

Local Street	Nonmajor Governmental Fund (Softball)	Total Governmental Funds
\$ -	\$ -	\$ 120,270
12,037	-	111,152
-	-	9,460
718	-	39,067
-	-	3,739
12,755	-0-	283,688
-	-	41,019
-	-	7,920
39,309	-	136,871
-	-	5,150
-	-	1,177
-	9	2,691
-	-	12,774
39,309	9	207,602
(26,554)	(9)	76,086
29,327	-	100,053
(9,356)	-	(55,127)
19,971	-0-	44,926
(6,583)	(9)	121,012
11,673	9	269,581
\$ 5,090	\$ -0-	\$ 390,593

Village of Pewamo

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2008

Net change in fund balances - total governmental funds \$ 121,012

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 12,359	
Depreciation expense	<u>(33,429)</u>	
Excess of depreciation expense over capital outlay		<u>(21,070)</u>
Change in net assets of governmental activities	\$	<u>99,942</u>

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2008

	Business-type Activities		
	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 101,522	\$ (730)	\$ 100,792
Investments	290,820	16,360	307,180
Receivables			
Accounts	5,168	7,892	13,060
Interest	4,358	385	4,743
Total current assets	401,868	23,907	425,775
Noncurrent assets			
Capital assets, net	863,464	253,781	1,117,245
TOTAL ASSETS	1,265,332	277,688	1,543,020
LIABILITIES			
Current liabilities			
Accounts payable	180	128	308
NET ASSETS			
Invested in capital assets	863,464	253,781	1,117,245
Unrestricted	401,688	23,779	425,467
TOTAL NET ASSETS	\$ 1,265,152	\$ 277,560	\$ 1,542,712

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS

Year Ended March 31, 2008

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 40,803	\$ 48,182	\$ 88,985
OPERATING EXPENSES			
Salaries and wages	15,194	17,711	32,905
Fringe benefits	2,534	2,954	5,488
Contractual services	1,273	7,403	8,676
Utilities	2,506	4,318	6,824
Repairs and maintenance	1,954	9,660	11,614
Supplies	1,175	3,504	4,679
Equipment rental charges	3,243	5,892	9,135
Water/Sewer sample testing	858	1,745	2,603
Other	328	370	698
Depreciation	40,525	12,045	52,570
TOTAL OPERATING EXPENSES	69,590	65,602	135,192
OPERATING (LOSS)	(28,787)	(17,420)	(46,207)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	21,753	1,009	22,762
Transfers in	261	16,798	17,059
Transfers out	(57,724)	(4,261)	(61,985)
TOTAL NONOPERATING REVENUES (EXPENSES)	(35,710)	13,546	(22,164)
CHANGE IN NET ASSETS	(64,497)	(3,874)	(68,371)
Net assets, beginning of year	1,329,649	281,434	1,611,083
Net assets, end of year	\$ 1,265,152	\$ 277,560	\$ 1,542,712

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended March 31, 2008

	Business-type Activities		
	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 36,141	\$ 46,900	\$ 83,041
Cash paid to employees	39,789	(33,256)	6,533
Cash paid to suppliers	(12,532)	(34,199)	(46,731)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	63,398	(20,555)	42,843
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(290,820)	(16,360)	(307,180)
Maturities of investments	172,443	-	172,443
Interest revenue	21,753	1,009	22,762
NET CASH (USED) BY INVESTING ACTIVITIES	(96,624)	(15,351)	(111,975)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	261	16,798	17,059
Transfers out	(57,724)	(4,261)	(61,985)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(57,463)	12,537	(44,926)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(90,689)	(23,369)	(114,058)
Cash and cash equivalents, beginning of year	192,211	22,639	214,850
Cash and cash equivalents, end of year	<u>\$ 101,522</u>	<u>\$ (730)</u>	<u>\$ 100,792</u>
Reconciliation of operating (loss) to net cash provided (used) by operating activities			
Operating (loss)	\$ (28,787)	\$ (17,420)	\$ (46,207)
Adjustments to reconcile operating (loss) to net cash provided by operating activities			
Depreciation	40,525	12,045	52,570
(Increase) in accounts receivable	(304)	(897)	(1,201)
(Increase) in interest receivable	(4,358)	(385)	(4,743)
Decrease in due from other funds	1,724	207	1,931
Decrease in advances to other funds	56,000	4,000	60,000
(Decrease) in accounts payable	(1,195)	(1,307)	(2,502)
(Decrease) in due to other funds	(207)	(16,798)	(17,005)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 63,398	\$ (20,555)	\$ 42,843

See accompanying notes to financial statements.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Pewamo is located in Ionia County, Michigan and has a population of approximately 520. The Village of Pewamo operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, President Pro-tem, Clerk, Treasurer, and five (5) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing* No. 5; these financial statements present all financial activities of the Village of Pewamo (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Village of Pewamo contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the Village Council prepares the proposed operating budgets for the fiscal year commencing April 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to April 1, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level for the General Fund and the total fund level for the Special Revenue funds; however, they are maintained at the account level for control purposes.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 31, 2008 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash equivalents are temporary investments that consist of various money market checking accounts, certificates of deposit with an original maturity of 90 days or less, and mutual funds. The cash and cash equivalents are recorded at market value.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments - continued

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated market value in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and External Investment Pools*.

7. Property Tax

The Village of Pewamo bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Pewamo on July 1 and are payable without penalty through September 1. All real property taxes not paid to the Village by September 15 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 15 mills (\$15 per \$1,000 of assessed valuation) for general governmental services. For the year ended March 31, 2008, the Village levied 12 mills for general governmental services. The total taxable value for the 2007 levy for property within the Village was \$9,977,206.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers.

The General Fund records charges for administrative services and equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Structures and improvements	20 - 40 years
Machinery, furniture, and equipment	5 - 30 years
Vehicles	5 years
Infrastructure	40 years

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: POOLING OF CASH AND CASH EQUIVALENTS

The Village's governmental funds balance sheet and Statement of Net Assets - Proprietary Funds reflects certain funds with cash and cash equivalents with negative balances.

Cash disbursed in excess of amounts recorded as assets as of March 31, 2008, are as follows:

<u>Fund</u>	<u>Negative Pooled Cash</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Special Revenue Funds			
Local Street	\$(8,862)	\$ -	\$(8,862)
Enterprise Funds			
Sewer System	(730)	-	(730)

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, or a State or Federally chartered savings and loan association, savings, bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association

Deposits

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2008, the carrying amount of the Village's deposits was \$790,835 and the bank balance was \$795,362, of which \$400,000 was covered by federal depository insurance. The remaining balance of \$395,362 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer.

Custodial credit risk

The Village has not adopted a policy that indicates how the Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

The cash, cash equivalents, and investments referred to above have been reported in the cash and cash equivalents or investment captions on the Statement of Net Assets, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2008:

Cash and cash equivalents	\$ 225,825
Investments	<u>565,010</u>
	<u>\$ 790,835</u>

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, and business type funds have been eliminated.

Transfers to General Fund from:		
Sewer Fund	\$	56,567
Water Fund		<u>4,000</u>
	\$	<u>60,567</u>
Transfers to Major Street Fund from:		
General Fund	\$	803
Local Street Fund		<u>9,356</u>
	\$	<u>10,159</u>
Transfers to Local Street Fund from:		
General Fund	\$	17,346
Major Street Fund		<u>11,981</u>
	\$	<u>29,327</u>
Transfers to Sewer Fund from:		
Water Fund	\$	<u>261</u>
Transfers to Water Fund from:		
General Fund	\$	15,641
Sewer Fund		<u>1,157</u>
	\$	<u>16,798</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

	Balance <u>April 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2008</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 44,447	\$ -	\$ -	\$ 44,447
Capital assets being depreciated				
Land improvements	229,500	2,320	-	231,820
Buildings and improvements	129,679	-	-	129,679
Vehicles and equipment	215,346	10,039	-	225,385
Infrastructure	<u>523,833</u>	<u>-</u>	<u>-</u>	<u>523,833</u>
Subtotal	1,098,358	12,359	-0-	1,110,717

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE E: CAPITAL ASSETS - CONTINUED

	Balance April 1, 2007	Additions	Deletions	Balance March 31, 2008
Governmental Activities - continued				
Less accumulated depreciation for:				
Land improvements	\$(188,250)	\$(3,750)	\$ -	\$(192,000)
Buildings and improvements	(77,784)	(3,542)	-	(81,326)
Vehicles and equipment	(169,721)	(13,041)	-	(182,762)
Infrastructure	(113,739)	(13,096)	-	(126,835)
Subtotal	(549,494)	(33,429)	-0-	(582,923)
Net capital assets being depreciated	548,864	(21,070)	-0-	527,794
Capital assets, net	\$ 593,311	\$(21,070)	\$ -0-	\$ 572,241

Depreciation expense was charged to the following governmental activities:

General government	\$ 26,137
Public safety	1,400
Public works	2,142
Recreation and cultural	3,750
Total	\$ 33,429

Business-type activities

Utility plant, wells, and mains - water	\$ 502,448	\$ -	\$ -	\$ 502,448
Sewer system	1,640,587	-	-	1,640,587
Equipment - sewer	63,137	-	-	63,137
Subtotal	2,206,172	-0-	-0-	2,206,172
Less accumulated depreciation				
Utility plant, wells, and mains - water	(236,622)	(12,045)	-	(248,667)
Sewer system	(757,807)	(32,812)	-	(790,619)
Equipment - sewer	(41,928)	(7,713)	-	(49,641)
Subtotal	(1,036,357)	(52,570)	-0-	(1,088,927)
Capital assets, net	\$ 1,169,815	\$(52,570)	\$ -0-	\$ 1,117,245

NOTE F: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for auto, property, additional equipment, boiler and machinery, official bond and oath, crime and liability losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE F: RISK MANAGEMENT - CONTINUED

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

NOTE G: RETIREMENT PLAN

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires a 1.7% contribution from the employees, and the Village contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For period ended March 31, 2008 the Village's annual pension cost of \$7,544 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is ten (10) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 48,387	\$ 59,370	\$ 72,252
Actuarial accrued liability (AAL) (entry age)	92,957	103,518	120,697
Unfunded (overfunded) AAL	44,570	44,148	48,445
Funded ratio	52 %	57 %	60 %
Covered payroll	69,428	71,497	73,297
UAAL as a percentage of covered payroll	64 %	62 %	66 %

	Year Ended March 31,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 5,957	\$ 7,416	\$ 7,544
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the total fund level for the Special Revenue funds

During the year ended March 31, 2008, the Village incurred expenditures in the General Fund and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Recreation and culture	\$ 2,500	\$ 2,682	\$ 182
Capital Outlay	9,500	12,774	3,274
Local Street Fund	37,400	48,665	11,265
Softball Fund	-	9	9

NOTE I: FUND EQUITY DESIGNATIONS

Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes.

The following is the fund balance designation as of March 31, 2008:

General Fund	
Designated for equipment replacement	<u>\$ 60,501</u>

NOTE J: RESTRICTED NET ASSETS

Restrictions on net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source preclude their use for unrestricted purposes. The following is the net asset restriction as of March 31, 2008:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Streets and highways	<u>\$ 129,304</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Pewamo

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
General property tax	\$ 123,500	\$ 120,114	\$ 120,270	\$ 156
Intergovernmental				
State shared revenue				
Revenue sharing funds	55,000	55,000	54,059	(941)
Liquor license fees	950	1,100	1,114	14
Other grants	2,000	2,435	3,376	941
Total intergovernmental	57,950	58,535	58,549	14
Charges for services				
Ambulance runs	5,000	5,000	9,285	4,285
Grave openings	150	150	-	(150)
Zoning permits	100	175	175	-0-
Total charges for services	5,250	5,325	9,460	4,135
Interest and rents				
Interest	7,250	7,250	12,896	5,646
Rent - equipment	25,000	25,000	18,707	(6,293)
Total interest and rents	32,250	32,250	31,603	(647)
Other revenue				
Cable TV franchise fees	1,183	1,183	1,237	54
Miscellaneous	825	1,350	2,502	1,152
Total other revenue	2,008	2,533	3,739	1,206
TOTAL REVENUES	220,958	218,757	223,621	4,864
EXPENDITURES				
General government				
Legislative	10,897	10,897	8,956	1,941
Executive	2,562	2,562	2,804	(242)
Clerk	24,692	25,552	23,965	1,587
Treasurer	3,370	3,370	3,210	160
Building and grounds	2,100	2,100	2,084	16
Total general government	43,621	44,481	41,019	3,462
Public safety				
Police department	200	1,100	1,100	-0-
Fire department	8,600	8,600	6,820	1,780
Total public safety	8,800	9,700	7,920	1,780

Village of Pewamo

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public works				
Department of public works	\$ 63,380	\$ 60,880	\$ 66,710	\$ (5,830)
Sidewalk construction	7,500	7,500	4,774	2,726
Storm drain construction	3,000	3,000	107	2,893
Street lighting	10,500	10,500	8,274	2,226
Total public works	84,380	81,880	79,865	2,015
Health and welfare				
Ambulance	10,000	10,000	5,150	4,850
Community and economic development				
Zoning board	1,373	1,373	1,177	196
Economic development	352	352	-	352
Total community and economic development	1,725	1,725	1,177	548
Recreation and cultural				
Parks and recreation	8,500	2,500	2,682	(182)
Capital outlay	3,500	9,500	12,774	(3,274)
TOTAL EXPENDITURES	160,526	159,786	150,587	9,199
EXCESS OF REVENUES OVER EXPENDITURES	60,432	58,971	73,034	14,063
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	60,567	60,567
Transfers out	(60,432)	(58,971)	(33,790)	25,181
TOTAL OTHER FINANCING SOURCES SOURCES (USES)	(60,432)	(58,971)	26,777	85,748
NET CHANGE IN FUND BALANCE	-0-	-0-	99,811	99,811
Fund balance, beginning of year	161,478	161,478	161,478	-0-
Fund balance, end of year	\$ 161,478	\$ 161,478	\$ 261,289	\$ 99,811

Village of Pewamo

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State	\$ 44,000	\$ 44,000	\$ 40,566	\$ (3,434)
Interest	<u>1,200</u>	<u>4,000</u>	<u>6,746</u>	<u>2,746</u>
TOTAL REVENUES	45,200	48,000	47,312	(688)
EXPENDITURES				
Public works	<u>24,200</u>	<u>27,000</u>	<u>17,697</u>	<u>9,303</u>
EXCESS OF REVENUES OVER EXPENDITURES	21,000	21,000	29,615	8,615
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	10,159	10,159
Transfers out	<u>(21,000)</u>	<u>(21,000)</u>	<u>(11,981)</u>	<u>9,019</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(21,000)</u>	<u>(21,000)</u>	<u>(1,822)</u>	<u>19,178</u>
NET CHANGE IN FUND BALANCE	-0-	-0-	27,793	27,793
Fund balance, beginning of year	<u>96,421</u>	<u>96,421</u>	<u>96,421</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 96,421</u>	<u>\$ 96,421</u>	<u>\$ 124,214</u>	<u>\$ 27,793</u>

Village of Pewamo

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State	\$ 13,000	\$ 13,000	\$ 12,037	\$ (963)
Interest	150	400	718	318
TOTAL REVENUES	13,150	13,400	12,755	(645)
EXPENDITURES				
Public works	34,150	37,400	39,309	(1,909)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(21,000)	(24,000)	(26,554)	(2,554)
OTHER FINANCING SOURCES (USES)				
Transfers in	21,000	24,000	29,327	5,327
Transfers out	-	-	(9,356)	(9,356)
TOTAL OTHER FINANCING SOURCES (USES)	21,000	24,000	19,971	(4,029)
NET CHANGE IN FUND BALANCE	-0-	-0-	(6,583)	(6,583)
Fund balance, beginning of year	11,673	11,673	11,673	-0-
Fund balance, end of year	<u>\$ 11,673</u>	<u>\$ 11,673</u>	<u>\$ 5,090</u>	<u>\$ (6,583)</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Pewamo
Pewamo, Michigan

As you know, we have recently completed our audit of the records of the Village of Pewamo, Michigan as of and for the year ended March 31, 2008. In connection with the audit, we wanted to make you aware of an upcoming change the Village will need to consider in the near future. This comment is a result of our evaluation of internal controls and our discussions with management.

Transfers between Major and Local Street Funds

Public Act 9 of 2004 allows a governmental unit to transfer surplus Major Street system funds for the preservation of the Local Street system. This authorization will end December 31, 2008. Effective January 1, 2009, Major Street funds may not be transferred to Local Streets except to the extent matched by local revenues expended on the Major Street system of State Trunkline highways.

We suggest the Village consider this when they plan for the budget process for 2009.

This item was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements. This item did not affect our report on the financial statements dated June 23, 2008.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Pewamo and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion or the other audit comments with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 23, 2008

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
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Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Honorable President and
Members of the Village Council
Village of Pewamo
Pewamo, Michigan

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pewamo as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated June 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Pewamo's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Village rests with the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many smaller governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

The condition noted in the preceding paragraph exists at the Village of Pewamo. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

We recommend the Village consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries were proposed by the auditors. These misstatements were not detected by the Village's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Material journal entries for the adjustment of accrued interest receivable, accounts payable, accounts receivable, depreciation expense, and interfund activity were proposed by the auditors. These misstatements were not detected by the Village's internal control over financial reporting.

Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Village's internal controls.

We recommend that the Village take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

SEWER FUND ACTIVITIES

During our review of the Sewer fund results of operations, it was noted the fund again had a loss this period, even though the Village did increase rates and took other steps to rectify this situation. This fund has had a loss for several of the previous years. This issue was noted and reported in our audit comments last year.

The Enterprise Funds' intent is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

We recommend the Village continue to review the sewer rates being charged to determine if they are sufficient to support the operations of this fund. As mentioned above, it was noted that the sewer rates were increased during the current fiscal year and the loss was not as severe in the current year as it has been in previous years, however, there was still a loss. The Village should continue to evaluate rates or examine the possibilities of reducing expenses in this fund.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Pewamo's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters.

BUDGETS

As noted in the financial statements, some of the activities and funds of the Village exceeded the amounts appropriated. The variances noted were in the General Fund and two (2) Special Revenue Funds.

The Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

EMPLOYER IDENTIFICATION NUMBER

During the course of our audit, it was noted that Fire Department still holds deposit accounts with local banks under the name and/or employer identification number of the Village, but the funds are not recorded in the Village's computerized general ledger. This issue was noted and reported in our audit comments last year.

We recommend the Village contact the local banks with which it does business and take the necessary steps to have the Village's identifying information removed from all accounts not under the control of the Village.

We noted a certain matter that we reported to management of the Village of Pewamo in a separate letter dated June 23, 2008.

This report is intended solely for the information and use of management, the President and Members of the Village Council of the Village of Pewamo, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 23, 2008